

**Assessment on the Importance of Employee Satisfaction on Performance Appraisal:
The case of Agar Micro Finance S.C**

Kidist Kumssa, St. Mary's University

Abstract

Employee performance appraisal is one of the most commonly used management tools in organizations irrespective of their type, size and objective. The general objective of the study is showing the importance of employee satisfaction in performance appraisal practice within Agar microfinance. Recent research has moved away from studies of rater accuracy and rating instruments to themes of employee reactions towards performance appraisal as indicators of system satisfaction and efficiency. An assessment of performance appraisal system has been studied as a significant factor in employee acceptance and satisfaction. This study assesses the performance appraisal system of Agar embarking on the benefits of employee satisfaction with the appraisal system. Data were obtained via questionnaire from 115 participants at the head office of Agar microfinance in A.A. An interview was also held with some key personnel of Agar, particularly with employees working in administration and human resource department. The findings of the study indicated that respondents perceived the performance appraisal system as important and employees' satisfaction is mandatory for conducive work environment. The majority of employees (96.5%) agreed that they do not know the purpose of performance appraisal system. The objective of appraisal should be made clear to all employees before appraisal takes place and employees should accept it. 67.8% of employees said that they are dissatisfied with their appraisal system. 95.6% employees claimed that satisfaction on performance appraisal system has impact on their work performance. 93% of employees said that satisfaction with appraisal system determines their commitment to Agar. 98.3% also showed that their willingness to continue working in Agar is determined by their satisfaction level on the performance appraisal system. In general, the overall view of management should advocate the accuracy of measurement and take corrective measures in the case of unfair ratings. With this context, the efforts of management were to the betterment of the appraisal system in order to gain employee satisfaction on it resulting in a reliable performance measurement.

Keywords: Performance Appraisal, Performance Appraisal System, Employees' satisfaction, Organizational Commitment, work performance, continual work willingness

1. Introduction

Human capital has always been regarded as one of the critical resources of organizations, and the quality of this resource has a direct effect on the organizational profitability. Also, it can be acknowledged that employees (i.e. Human capital) are the factors of competitive advantage in organizations (Ahmed et al., 2013). Other researchers (Chang and Han, 2006) suggest that human capital is considered the most critical factor in gaining sustainable competitive advantage, and in the competitive situation of today's world, organizations should have skilled and motivated human capital if they are to be regarded as successful. In

light of this, improving the human resource management level and its functions has been paid much attention by organizations as an essential principle. This brings us to performance appraisal, one of the main functions of human resource management in which many studies have been done on its importance and its role. Performance appraisal (PA) is a process by which the activity of employees is investigated and measured officially and in certain intervals (Saadat, 2006, 214). The evolution of performance appraisal practice is as far back as World war I. Formal performance appraisal systems were well established by the mid-1950s and personality based systems were widely used. On the basis of this, PA can be defined as the formal assessment and rating of individuals by their managers, usually, at annual review meetings (Armstrong, 2006).

Regarding the outcomes and advantages of performance appraisal, some points can be mentioned as follows: identifying strong employees and rewarding them (Kciuk, 2007); creating motivation for improving the performance of stronger and even weaker employees (Ochoti, 2012), providing feedback and correcting the weaknesses and strengths of employees (Johnson et al., 2005). Though, there is an agreement on the necessity of performance appraisal as one of the main functions of human resource management, there is no comprehensive view regarding benefits from this function. In the past, classic managers were doing performance appraisal only in order to control the work of employees, but today, the guidance aspect of this performance appraisal is more important (Saadat, 2006, 214). So, now more emphasis has been on providing feedback and awareness of employees of the performance appraisal results (Daonis, 2012). Generally, in recent years most researchers emphasize on better utilization of performance appraisal results, providing feedback to employees, fairness of appraisals and changing the ways performance appraisals are done and doing it based on transparent and predetermined indices (Rasheed, 2011).

In most recent points of view, there has been equating satisfaction with performance appraisal and it has been referred to as one of the factors that increase the effectiveness of performance appraisal systems (Johnson et al, 2005). Moreover, it has been acknowledged that if employees are satisfied with the results and indices determined in the appraisal systems as the result of implementing these systems, the organization will gain more outcomes and benefits. The outcomes like employees' satisfaction and improvement of motivation (Jiang et al., 2001), are the result of more cooperation in appraisal process and reduction of intra-organization conflicts (Higgs, 2005). However, there are not many studies on the outcomes and benefits of satisfaction with appraisal, especially regarding comprehensive views on its outcomes and benefits in organizations. This study has been done with the aim of investigating the outcomes of "satisfaction with appraisal" on performance and effectiveness of employees.

This researcher has emphasized that appraisal reactions play a crucial role in the development of favorable job and organizational attitudes and enhance motivation to increase performance (Lawler, 1994; Taylor, et al., 1984). Of all the appraisal reactions, satisfaction on performance appraisal system has been the most frequently studied (Keeping and Levy, 2000). But why does satisfaction on performance appraisal matter? It is because a critical link exists between satisfaction with the appraisal process and appraisal effectiveness (Dobbins, et

al., 1990). Since appraisals are designed to help organizations retain, motivate and develop their employees (Mount, 1984), there can be little hope that these outcomes will occur if individuals are dissatisfied with the process. If raters are not satisfied or perceive a system as being unfair, they will be less likely to use performance evaluations as feedback to improve their performance. In this research, the main assumption is that employee satisfaction on performance appraisal has its own advantages to construct. Accordingly, the focus of the study is on importance of employee satisfaction on the appraisal system as an outcome, specifically in the context of Agar Microfinance.

1.1 Background of the Company

Agar is the first commercial private microfinance company licensed in the country on March 18, 2004. Initiated by Ethiopian shareholders as a profit making institution that is registered as a share company, it started operation in April, 2004. Agar is a saving and credit institution organized to render financial services to people and potential entrepreneurs with no access to conventional banks. It was established by 443 shareholders with paid up capital of Birr 4,243,600.00. Currently, its shareholders grew to more than 750, and its paid up capital more than 162.0 million birr with a total assets of more than 410 million birr. It has over 17 branches all over the country, mostly stationed in Oromia and South Nation, Nationalities and Peoples (SNNP) region.

Agar has six credit products at the time this study was being conducted, which were:

- A. Micro business loan design for micro business operators disbursed on group members guaranty ranging from 3 to 5. The loan size is up to 8000 ETB for the first cycle and increases as the loan cycle increases. The maximum loan size disbursed is birr 25,000 through the loan term of 18-24 months.
- B. Small business loan is disbursed to licensed small business operators on individual basis with a loan term of of 24 months .Vehicles, houses, bank and insurance certificate can be used as collateral for loan size above 20,000ETB; whereas for loan amount up to 20,000 ETB a salaried individual can be a guarantor.
- C. Construction loan is disbursed to those who need to undertake construction. To access this loan, clients are expected to prove undertaking construction on their own houses by presenting the necessary documents and generate sufficient income to repay the loan.
- D. General loan is loan product designed for salaried workers on group and individual basis. The loan size depends on the salary of employees and the loan term can be prolonged up to 24 months within three cycles.
- E. Agriculture loan is designed to serve the farmers through branches outside Addis Ababa. The loan is only disbursed on group guaranty basis.
- F. Women entrepreneurs development program (WEDP) is designed to women clients in Addis Ababa. This loan is provided to female clients and the loan size is determined based on the cash flow of the business. The size of the loan can be up to birr 500,000.

Agar microfinance uses both group and individual lending methodologies. In addition, the institution collects both compulsory and voluntary savings. The interest charged for the most common agriculture loan was a flat interest rate of 18% per annum. The loan has a term of one year. The only non-financial service provided by AMFI is in the form of training on small business management provided to their clients. The institution currently has 120 staffs out of which 61 are males and 59 are females. The institution's annual financial statements showed that as of 30 June 2015 (end of financial year); AMFI has a Gross Loan Portfolio of Ethiopian Birr 129.58 million accumulated savings/deposits of Birr 55.7 and has 10,141 active borrowers. The average loan size was Birr 12,777 and the amount of arrears was 3.19% of loan. The institution had earned a surplus income over expenditure of Birr 20.53 million over the past financial year.

1.2 Statement of the Problem

The main challenge that faces managers in all types of organizations is how to get maximum performance from their employees. Performance appraisal, therefore, seems to be inevitable. In the absence of a carefully structured system of appraisal, people will tend to judge the work performance of others, including subordinates, naturally, informally and arbitrarily. The human inclination to judge without a structured appraisal system can create serious motivational, ethical and legal problems in the workplace. Without a structured appraisal system, there is little chance of ensuring that the judgments made will be lawful, fair, defensible and accurate. Also, Employee satisfaction with the Performance appraisal plays an essential role in their long-term efficiency of the performance appraisal system. A negative reaction toward the Performance appraisal can ruin the entire PA system even if it was built meticulously. It was in light of this Agar microfinance agreed in accessing their performance appraisal system relative to employee's satisfaction to gain the benefits of employee satisfaction with performance appraisal system. Therefore, the study intends to investigate the importance of employee satisfaction on performance appraisal within Agar.

Research Questions

In order to achieve the aims of the study, the following research questions are raised.

- How effectively is performance appraisal done at Agar microfinance?
- What are the attitudes of employees towards performance appraisal at Agar microfinance?
- How does employees' perception and satisfaction with performance appraisal process affect the job environment?
- What are some of the benefits associated with employee satisfaction with performance appraisal in Agar microfinance?
- What should be done to improve employee satisfaction with performance appraisal in Agar microfinance?

1.3 Objectives of the Study

The objectives of the study have been divided into two. These are the general objective and specific objectives.

General Objective

The general objective of this study is, to show the importance of employee satisfaction on performance appraisal in Agar microfinance.

Specific Objectives

The specific objectives of the study are as follows:

- To determine whether performance appraisal is done effectively and efficiently at Agar microfinance.
- To explore the opinions of employees related with performance appraisal methods in Agar microfinance
- To understand the impact of employees' perception and satisfaction with performance appraisal process on the job environment
- To identify the benefits associated with employee satisfaction on performance appraisal system in Agar microfinance.
- To identify key practical recommendations and approaches for a better performance measurement system and employee satisfaction in Agar microfinance.

1.4 Significance of the Study

- ✓ The prime significance of the study is for academic practice of future research. It provides fresh reference on the subject that others may use in their research
- ✓ The research study hopes to assist managers, change agents and human resource practitioners in the different sector not only in Agar microfinance but in other companies that share similar settings in assessing, designing and evaluating new or existing programs in relation to employee satisfaction on performance appraisal systems.
- ✓ The findings and recommendations of the study are thought to be vital for the human resource practitioners who design and administer employees' performance appraisal to achieve organizational objectives and tackle the problem regarding employees performance appraisal and their satisfaction on it so as to increase job satisfaction level of employees.

1.5 Scope of the Study

Despite the fact that Agar has over 17 branches country wide, due to limited time and money in undertaking the study and the uniformity of jobs among all branches, the research was geographically delimited to the employees who are working at the headquarters of Agar microfinance. It involves both management and non- management employees in the different departments in Agar. It focuses more on the performance appraisal method used by Agar microfinance to measure the employees, performance and on the importance of employee satisfaction with performance appraisal system used in Agar microfinance.

1.6 Definition of Terms

Performance Appraisal: It is a systematic, periodic and so far as humanly possible, the impartial rating of an employee's excellence in matters pertaining to his potentialities for a better job (Flippo, 1984).

1.7 Performance Appraisal Process: As per DeCenzo (2010), the appraisal process is establishment of performance standards in accordance with the organization's strategic goals, communicate expectations, measure actual performance, compare actual performance with standards, discuss the appraisal with the employees and initiate corrective action.

Employee's Performance Appraisal Satisfaction: It is the extent to which the employee perceives performance ratings reflect those behaviors that contribute to the organization (Giles and Mossholder, 1990).

2. Research Methodology

2.1 Research Approach and Design

With the main objective in mind, the researcher used descriptive research design to show the importance of employee satisfaction on performance appraisal system in Agar microfinance. According to C.R. Kothari, (2004), the purpose of descriptive research is to portray accurately the characteristics of a particular individual, situation or a group. The major purpose of descriptive research is description of the state of affairs as it exists at present. So, descriptive research has been used to assess performance appraisal system of Agar microfinance and show the importance of employee satisfaction with it focusing on employees of Headquarter of Agar.

2.2 Population and Sampling Technique

A population is the group of units about which the researcher wants to make judgments. These units can be groups of individuals, customers, companies, or products (Mooi and Sarstedt (2011). The population of interest for this study is 130 employees working in the head office of Agar microfinance which is one of the private owned microfinance institutions working in Ethiopia. The target population was taken as a whole so no sample or sampling technique was applied. The target population included both management and non-management employees organized in six departments; CEO, Human resource management, finance department, legal department, IT department and Operations department.

2.3 Data Type and Sources

To conduct this research, information from both primary and secondary data sources was used. The primary data has been collected from pre organized questionnaires administered via email, and phone interview with managers. The study used secondary data from written materials like academic books, journals, research papers, internet resources for literature review. Also online desk research was used.

2.4 Method of Data Collection

The data collected has been both qualitative and quantitative in nature. The qualitative data has been used to obtain qualitative data from managers using structured phone interview based on 12 questions, and the quantitative method has been used to collect quantitative data using questionnaire administered via employees' personal email. A structured questionnaire of 14 questions with 4 parts was used as data collection method and was sent to employees of the head office with the intent of allowing them to willingly participate in the study. The questionnaire was prepared in English language. Since English is the organization's working language, it is presumed that they can communicate in English and understand the intention of the questionnaire. The questionnaire was attached with a letter explaining the subject matter to employees and asking them to participate in the study. To preserve the anonymity of participants, the questionnaire required no employee identification.

2.5 Data Analysis Method

The data was analyzed according to the objective of the research, and the analysis of each objective was presented. The quantitative data obtained from the questionnaire was broken down in an understandable format with the help of The Statistical Package for Social Science (SPSS) software, version 20 and Microsoft Excel. Demographic characteristics were summarized using statistical tools such as tables, bar chart and pie chart. For all variables, frequencies, percentages and words were used to present data regarding the employees' perception and satisfaction with performance appraisal process.

2.6 Reliability and Validity of Data Collection Tool

Content validity of the data collection instrument in providing adequate coverage of the topic under study is confirmed. Due emphasis was given to make the questions objective type and understandable so that the employees can answer the questions properly based on what they know. Vague and confusing wordings were avoided not to mislead the employees when filling the questionnaires. The questionnaire was organized and finalized with a close consultation of my advisor and expertise of the subject area.

Of the questionnaires distributed for the respondents, 88.5% (115 Of 130) were collected. This was considered enough to go on with the study. The completeness and accuracy of the responses was carefully reviewed. Each response was coded and categorized and carefully fed into frequency table using Microsoft excel sheet. Variables were summarized based on frequency of employees' response.

2.7 Ethical Considerations

The study respondents' willingness to participate in the study is respected and verbal consent was taken. Name of personalities were not mentioned in the report. The strategically computational information collected was not included in the report. To assure that, the Agar's officials close consultation was implied. Any information that can be found spoiling the goodwill and reputation of the organization is not included in the report.

2.8 Limitation of the Study

Due to the current pandemic of Covid-19, extensive primary data gathering was hampered. Retrieval of answered questionnaires was the other challenge to the research as some employees were less familiar with contacting through email and few respondents were not able to return a questionnaire timely and it was a difficult task to wait until all are returned. Again some of the employees gave safeguarded answers to some crucial questions.

Limitation of resource was the other drawback and, therefore, the report has not been detailed enough. In addition, because of inaccessibility of the required data from the company, not all areas of performance appraisal system and employees satisfaction measures were covered.

3. Presentations and Analysis of Data

3.1 Characteristics of the Study Population

The headquarters of Agar has 130 employees categorized in six departments. As mentioned earlier, the population is small so no sample was taken and instead was taken as a whole. Respective heads of department and fellow employees were involved in the Study.

Table 1: Category of research population

| Categories | No of employees | percentages |
|--|-----------------|-------------|
| The CEO plus managers from each department | 7 | 5.3 |
| HRM | 21 | 16.2 |
| Finance | 28 | 21.5 |
| Legal | 3 | 2.3 |
| IT | 5 | 4 |
| Operations | 66 | 50.7 |
| Total | 130 | 100 |

3.3 Analysis of the Finding of the Study

Questionnaires were distributed to 130 employees at the Headquarter of Agar and 115 were answered correctly and returned.

3.4 Demographic Data of the Respondents

To analyze the data, the respondents were categorized into five demographic variables by sex, age, academic qualification, service year and position held. Each data is explained in details and indicated in statistical tools below.

3.4 Gender of Respondents

From (Fig 1), 49 (42.6%) of the respondents were female while 66 (57.4%) of the respondents were males. This trend shows that male are more in number than their female co-workers in the study population.

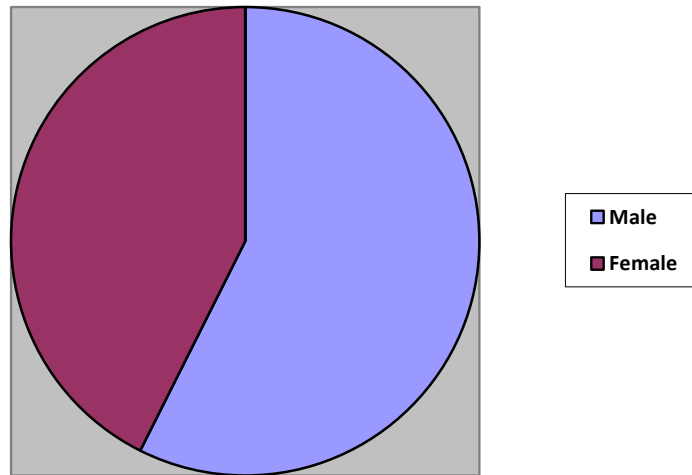


Figure 1: Gender of responders

Age of Respondents

Fig 2 below indicates that 86 (75%) were between 25-35 years. Only 17(14.7%), 7(6%), and 5(4.3%) of the respondents were below 25, 36-45 and above 45 years old, respectively. This trend is encouraging since the statistics indicates youg employees in the study area.

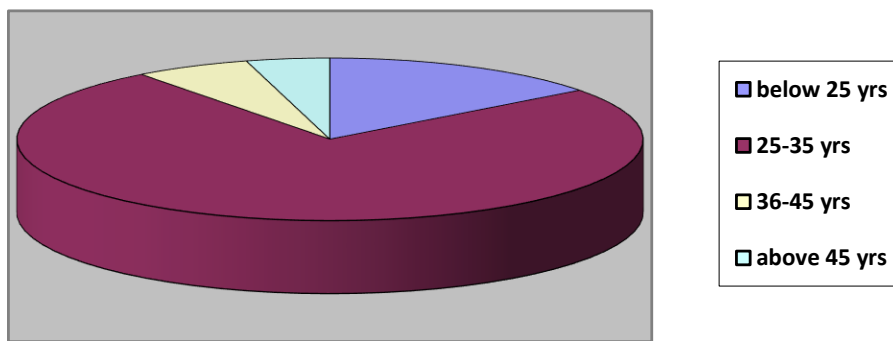


Figure 2: Age of respondents

3.5 Academic Background of the Respondents

Table 2: Academic background of the respondents

| Academic Qualification | Number | Percentage |
|------------------------|--------|------------|
| Diploma | 40 | 34.7% |
| BA | 68 | 59.2% |
| MA | 7 | 6.1% |
| PHD | 0 | 0% |
| Total | 115 | 100% |

As indicated in Table 2, 59.2% of employees have BA degree, 6.1% of employees are MA degree holders, 34.7% of employees have diploma i.e. below BA degree. This gives the organization a competitive advantage having qualified and skilled employees as the microfinance industry is operating in a competitive market.

3.6 Experience of Employees in Years

The following data shows the number of years the employees have served the company.

Table 3: Years of experience of employees

| Years of experience | Number | Percentage |
|---------------------|--------|------------|
| less than 1 year | 19 | 17% |
| 1-5 years | 84 | 73% |
| 6-10 years | 0 | 0 |
| 11-15 years | 12 | 10% |
| 16 years | 0 | 0% |
| Total | 115 | 100% |

Less year of service shows that there is relatively higher employee turnover. Majority of the employees (17+73=90%) have below 5 years of experience as seen above in Table 3. This shows that the organization has a problem in keeping employees loyal to the company and increases cost of hiring new employees. 73% of the employees have served the organization for 1-5 years, 17% of the employees have served the company for less than one year and the rest 10% have 11-15 years' of experience.

3.6 Responsibility of the Respondents

Responsibility of the respondents is presented in Figure 3.

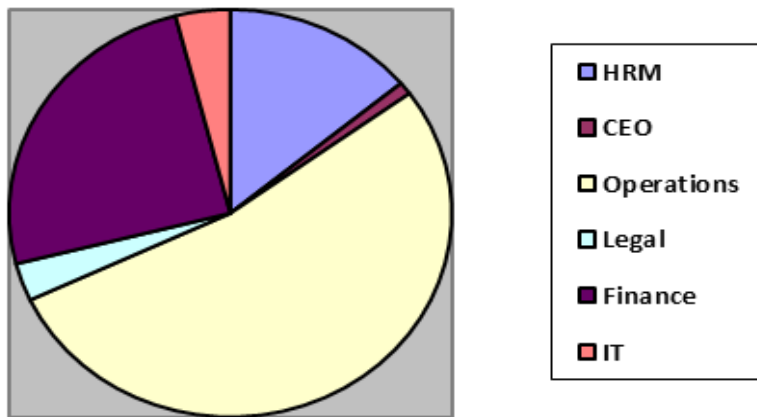


Figure 3: Responsibility of responders

25% of the respondents' responsibility is in finance department. 14 % of them were from HRM, 4%, 3% and 1% respondents' responsibilities include IT, Legal and CEO, respectively. 53% of the respondents were operations. This implies that this research assesses majority of the Agar's responsibility held operational department and they give concrete responses.

3.7 Respondents Opinion towards the Current PAS in Agar

The respondents' answers are presented below based on the sequence of the questions written in the questionnaire. It is prepared in English to collect the necessary data from all level of employees. The first question asked if the organization has a formal PAS and all employees answered yes. The second question asked was how often the organization evaluates performance, based on the organization's practice. All employees responded that performance evaluation has been conducted annually. In relation to this, on questionnaire part four, the respondents were asked to express their ideas on how often should PAS be done; and the majority (70%) said semi-annually, as seen in Table 4 below. Keep in mind that there is no rule about the frequency of job performance appraisal; it is up to the employer and the company policy to decide, but it is better to arrange for shorter period to remember and measure an employee's performance for that period.

Table 4: Employees Opinion on the Frequency of Performance Appraisal

| How often should PA be conducted | Number | percentage |
|----------------------------------|--------|------------|
| Quarterly | 6 | 5% |
| Semiannually | 81 | 70% |
| Annually | 22 | 20% |
| No opinion | 6 | 5% |
| Total | 115 | 100% |

Employees' different attitude as to who has to evaluate employees' performance was

accessed. For this, employees are given four choices; immediate supervisor, peer appraisal, employee himself/herself or appraisal by subordinates. Results from respondents are presented in table 5 as follows:

Table 5: About Who should Evaluate Employees' Performance

| Who should evaluate | | |
|----------------------------|---------------|-------------------|
| Employees' PAS? | Number | Percentage |
| Immediate supervisor | 115 | 100% |
| Peer appraisal | 0 | 0 |
| Self-rating | 0 | 0 |
| Appraisal by subordinates | 0 | 0 |
| Total | 115 | 100% |

All employees said that evaluation is conducted by their immediate supervisors as it is part of company rule. Also immediate supervisor is the one most familiar way of PA since the supervisors have the best opportunity to observe individuals actual performance. Different employees have different attitude as to the performance appraisal system being employed in the company. These employees are given nine choices; assessment center, MBO, BARS, Checklist, forced choice, critical incidents, field review, ranking and graphical scale.

Table 6: Performance Appraisal Methods

| PAS | Number | Percentage |
|--------------------|---------------|-------------------|
| Graphical scale | 55 | 47.8% |
| BARS | 20 | 17.4% |
| MBO | 12 | 10.4% |
| Assessment Centre | 11 | 9.7% |
| Ranking | 10 | 8.7% |
| Critical incidents | 7 | 6% |
| Total | 115 | 100% |

The majority (47.8%) of the employees said graphic scale is used; 17.4% said BARS; 10.4% said MBO; 9.7%, 8.7% and 6% assessment, ranking, and critical incidents, respectively as seen in Table 6. This however, shows that employees as a whole do not surely know the appraisal method used by their organization.

In assessing Agar's PAS, the respondents were asked to indicate whether they were familiar with the rationale behind PAS and, 102 (88.7%) strongly disagreed ;9 (7.8%) disagreed, and

4 (3.5%) were neutral. As indicated in the bar chart (fig 4) below, the majority (96.5%=88.7%+7.8%) of the respondents didn't know the rationale behind performance appraisal. This indicates that there is an in-depth lack of knowledge of performance appraisal among employees of Agar, and also failure to communicate the purpose of PA prior to performing it on the part of management.

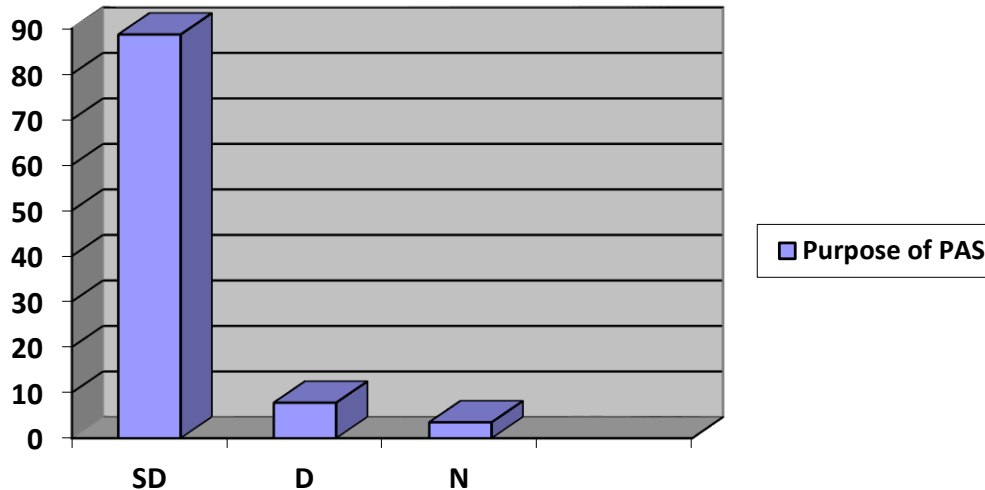


Figure 4: Purpose of PAS

Regarding clarity on the appraisal criteria, 90 (78.3%) strongly agreed to the criteria being clear to them; 15(13%) agreed to appraisal criteria clarity, and 10(8.7%) were neutral as seen in Fig 5. The majority (91.3%=78.3%+13%) of the employees agreed on the evaluation criteria being communicated to them as shown in the Fig 5 below. Yet on the open ended section of adding comment on the PAS of Agar, 78% of the employees indicated on the evaluation criteria being general than specifically being related to their particular work areas.

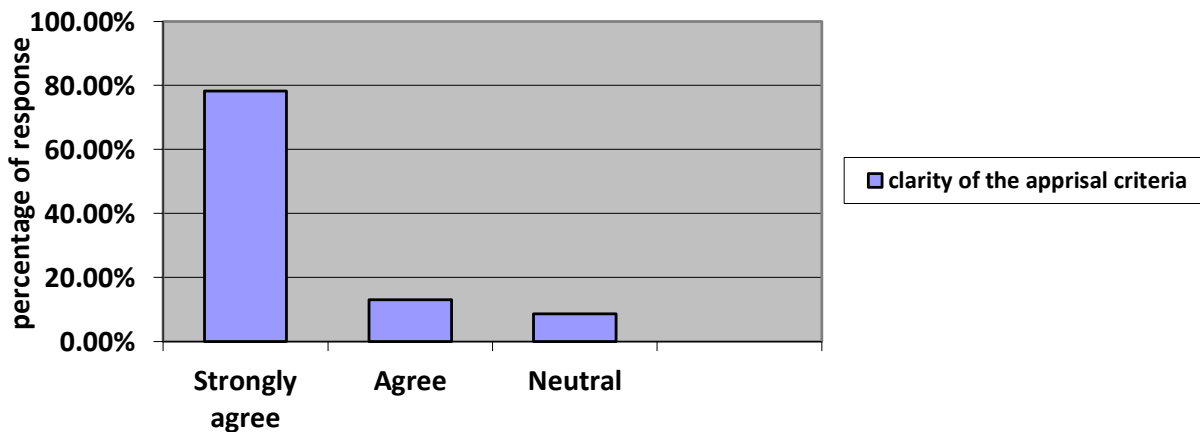


Figure 5: Clarity of the appraisal criteria

Regarding the rater qualification, 92(80%) strongly agreed on their rater's qualification to evaluate their work, 15 (13%) agreed; and 8 (7%) disagreed claiming that their raters are unqualified to rate them as presented in Fig 6 below. The majority (93%=80%+13%)

considered their raters as qualified enough to evaluate them.

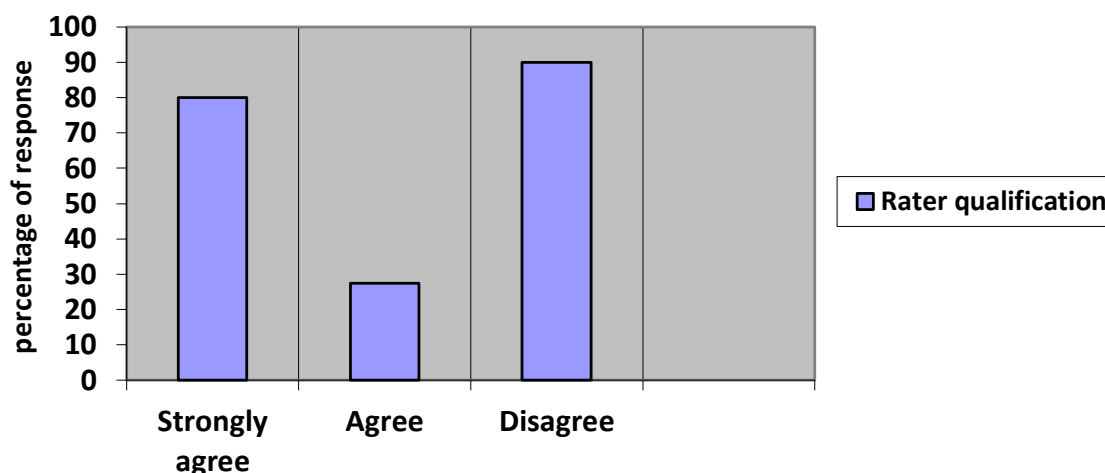


Figure 6: Rater's Qualification

Quality and Quantity of employees work

In accessing if the PAS is solely based on employees work rather than their position and personality, employees indicated their level of agreement as indicated in the table 7 below. 4 (3.5%) indicated disagreement, 9(7.8%) indicated neutrality, another 60(52.2%) of the respondents indicated agreement and 42(36.5%) of the respondents indicated strong agreement. This trend implies that majority (88.7%=36.5%+52.2%) of the respondents were of the view that the PAS was based on quality and quantity of employees work rather than their position and personality.

Table 7: Level of agreement on PAS being based on

| Variables | Respondents | Percentage |
|-------------------|-------------|------------|
| Strongly agree | 42 | 36.5 |
| Agree | 60 | 52.2 |
| Neutral | 9 | 7.8 |
| Disagree | 4 | 3.5 |
| Strongly disagree | 0 | 0 |
| Total | 115 | 100 |

Respondents were asked to indicate their level of agreement in the current PAS at their organization being effective, fair and transparent; and 86 (74.8%) indicated neutral, 15(13%) indicated disagreement, 4(3.5%) indicated strong disagreement and 10(8.7%) indicated agreement as shown in the table 8 below. The majority (74.8%) of the employees refrained from commenting on their PAS, 12.2% (3.5%+8.7%) said it is not effective, fair or transparent and only 8.7% say it is effective, fair and transparent. This shows that the employees are not on the same page on the PAS of their organization and could not surely call it as effective, impartial or accountable.

Table 8: Level of agreement on PAS being effective, fair and transparent

| Variables | Respondents | Percentage |
|-------------------|-------------|------------|
| Strongly agree | 0 | 0 |
| Agree | 10 | 8.7 |
| Neutral | 86 | 74.8 |
| Disagree | 15 | 13 |
| Strongly disagree | 4 | 3.5 |
| Total | 115 | 100 |

To find out if employees are satisfied with current performance appraisal system, respondents were asked to state their level of agreement to their PAS satisfaction and as shown in Table 9 below, the majority 69 (60%) disagreed, 9 (7.8%) strongly disagreed, 6 (5.2%) were neutral, 24 (20.8%) agreed and the rest 7 (6.2%) strongly agreed. This shows that 67.8% (60%+7.8%) of the employees are dissatisfied with their current PAS.

Table 9: Level of agreement on satisfaction with PAS

| Variables | Respondents | Percentage |
|-------------------|-------------|------------|
| Strongly agree | 7 | 6.2 |
| Agree | 24 | 20.8 |
| Neutral | 6 | 5.2 |
| Disagree | 9 | 7.8 |
| Strongly disagree | 69 | 60 |
| Total | 115 | 100 |

In investigating employees' opinion on employee satisfaction with PA being important or not, almost all employees 111 (96.5%) strongly agreed that their satisfaction is mandatory as seen in Figure 7 below.

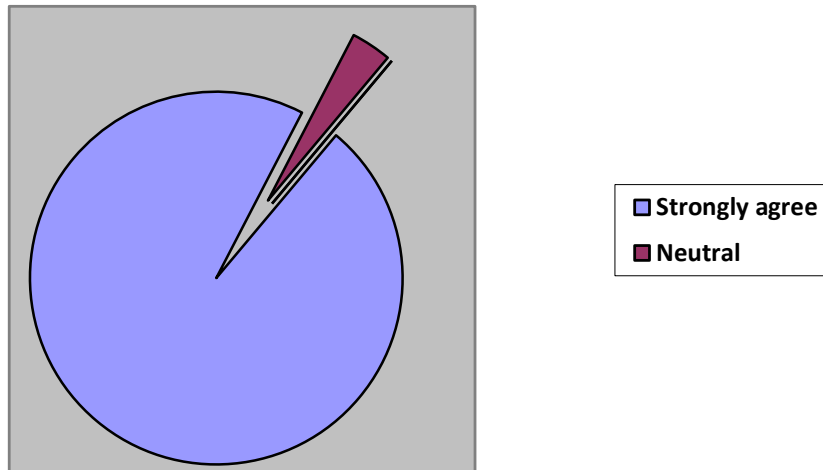


Figure 7: Level of agreement on the importance of employee satisfaction with PA

Respondents were asked to indicate whether performance appraisal satisfaction has positive impact on their performance, and, 65 (56.5%) strongly agreed while 45 (39.1%) only agreed on PA having impact on their performance as shown in the Fig 8 below. This means that almost all (95.6%) of the respondents were of the view that their satisfaction with PA has strong influence on their performance. Based on this evidence it is correct to suggest that satisfaction with PAS positively influences employees' work performance.

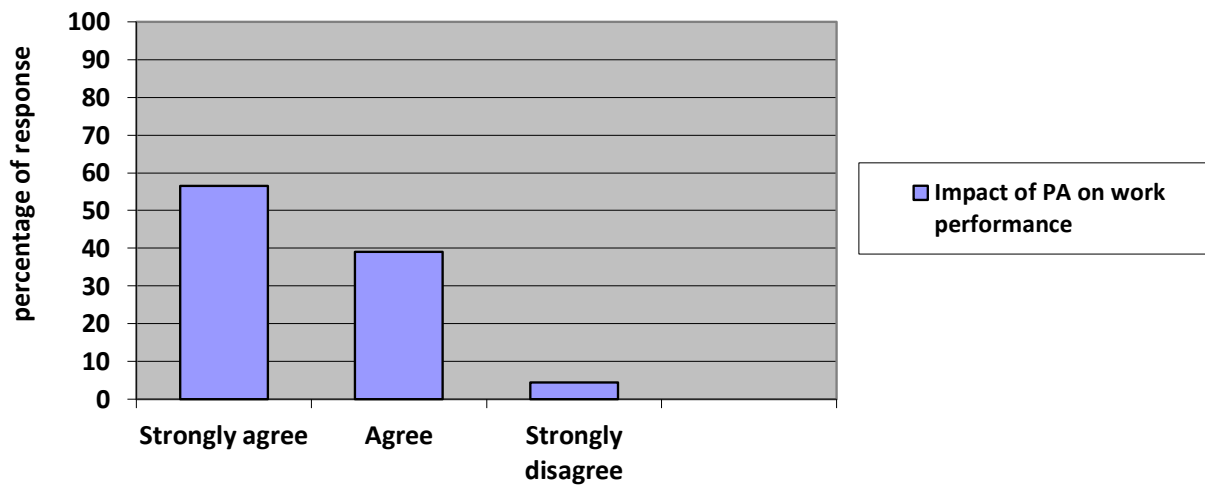


Figure 8: Impact of PA on work performance

To find out if their satisfaction with PA affects their commitment to the organization, 90 (78.3%) strongly agreed on organizational commitment being determined by their level of satisfaction on companies PA while 17 (14.7%) only agreed as seen in table 10 below. Over all, 93% of the employees suggested that if they are satisfied with the PAS they stay committed to their organization. With this finding in hand, it is possible to propose that satisfaction with PAS is positively related to affect organizational commitment.

Table 10: Level of agreement on satisfaction with PA as affecting organizational commitment

| Variables | Respondents | Percentage |
|-------------------|-------------|------------|
| Strongly agree | 90 | 78.3 |
| Agree | 17 | 14.7 |
| Neutral | 8 | 7 |
| Disagree | - | - |
| Strongly disagree | - | - |
| Total | 115 | 100 |

To determine whether willingness to continue working in the organization is determined by their level of satisfaction with the PA, respondents showed their level of agreement as shown in Table 11 below. The majority 98.3% (87%+11.3%) agreed that they would continue working for the organization if they are satisfied with the PA. Based on this it is reasonable to propose that when employees are satisfied with PAS, they are more likely willing to continue working for the organization; there is less intention to leave. So satisfaction with PAS is inversely related to the intention to leave.

Table 11: Level of agreement on satisfaction with PA as affecting willingness to continue working for the organization

| Variables | Respondents | Percentage |
|-------------------|-------------|------------|
| Strongly agree | 100 | 87 |
| Agree | 13 | 11.3 |
| Neutral | 2 | 1.7 |
| Disagree | - | - |
| Strongly disagree | - | - |
| Total | 115 | 100 |

Regarding the PA at the company being focused on employee development, respondents level of agreement is seen in Fig 9 below. The majority 89 (77.4%) disagreed, 16 (14%) strongly disagreed and 10 (8.6%) agreed. This shows that the majority 91.4% (77.4%+14%) said that the organization's PA is not focused on employee development.

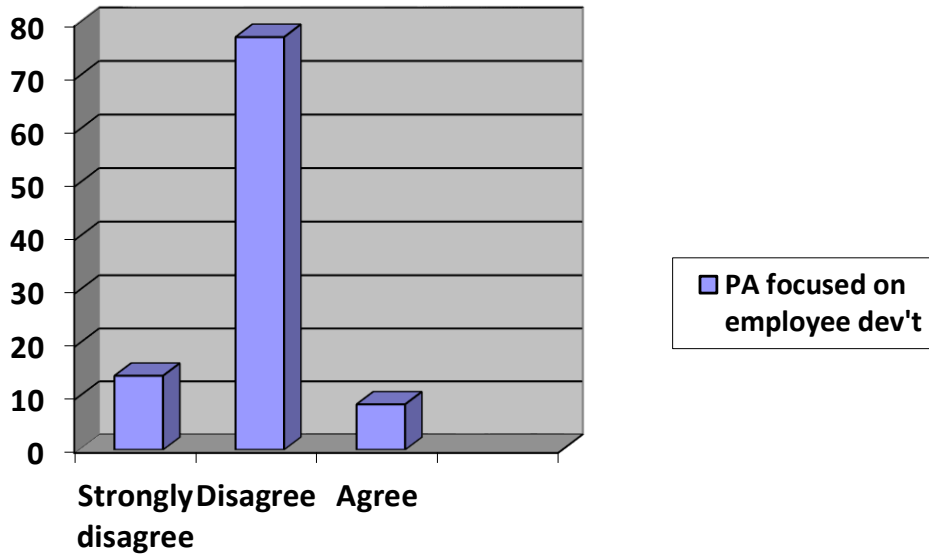


Figure 9: Level of agreement on PA being focused on employee development or not

Regarding feedback provision, over half of the respondents 61(53%) agreed to provision of feedback after PA and the remaining 54 (47%) disagreed on feedback given to them as seen in the Fig 10 below. All those who claimed that feedback was given were from operational department.

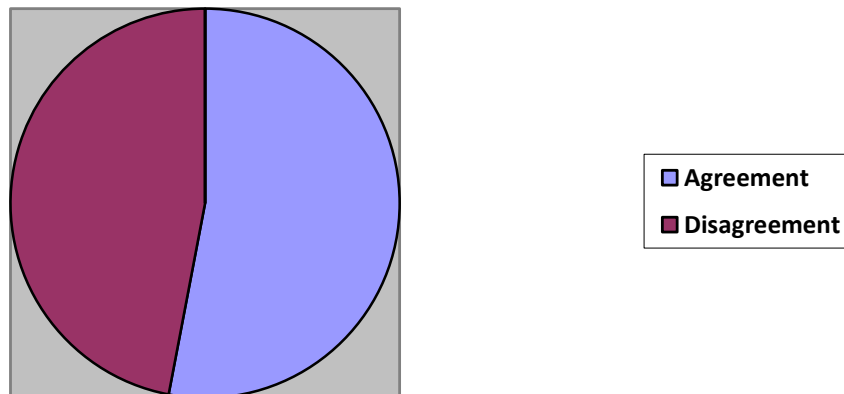


Figure 10: Level of agreement on provision of feedback after PA

Regarding the phone interview with the CEO and heads of each department, it was known that the company conducts a formal annual PA by immediate supervisors, who they claim, are fit to conduct PA. Yet, no written policy guides the process of PA and no stated steps are set to be followed. Prior to PA, goal setting and explanations of purpose of PA ,was never done. Feedback on the PA was provided to operational department with the intent of increasing customer handling and satisfaction. Also, the organization never tried to access the perception or satisfaction of employees regarding the PAS. Rather PA is only done for the purpose of deciding on salary increment, promotion, transfer or bonus.

4. Summary, Conclusion and Recommendation

4.1 Summary

The major objective of the study was to show the importance of employee satisfaction with PAS within Agar microfinance S.C. To achieve the objective, questionnaire and interview methods were employed.

Based on the information gathered through the questionnaire and interview conducted in Agar, the major findings that the researcher came up with are:

- There is no written policy about performance appraisal system.
- Performance evaluation is made once a year, which is a long period to remember and evaluate an employee's yearlong performance.
- Employees are not clear about the purpose of performance appraisal and the evaluation criteria for performance appraisal.
- Most employees are dissatisfied with their PAS.
- The performance measurement criteria are general rather than being specific to include the major tasks and activities of each department. The format of performance appraisal of the company is prepared into two divisions, each with minor differences from one another. These are one for operations and the other for non- operations departments.
- The performance appraisal system fails to communicate the feedback on time and does not focus on employee development.

If all the above mentioned problems are corrected, the appraisal system of Agar will contribute to the success of the organization. Therefore, based on the problems recommendations are suggested below to improve the system.

4.2 Conclusion

Individual performance is the foundation of organizational performance. Improving individual performance is critical for the success of every organization. Performance evaluation is a common practice in the life of an organization. Failure to have a proper employee performance appraisal system leads to failure of the business organization itself. The aim of performance appraisal is to evaluate the job performance of employees so as to improve their performance and consequently the organization performance. In order to do so, performance appraisal system should use job related criteria, appropriate method of appraisal for each purpose, qualified and well trained appraiser and participation of employees in one way or the other.

The objective of the study is to find out the importance of employee satisfaction with performance appraisal system by making thorough assessments of performance appraisal system in Agar microfinance S.C. In doing so, the study tried to analyze data that have been gathered through primary and secondary sources. In investigating the performance appraisal system of the Agar, it has been found that Agar uses two PAE formats and rating scale method is used by immediate supervisor, review committee; and the senior managers use an essay method of evaluation. In this respect, they write a brief narrative description of employee's performance and characteristics. This includes the major task he or she has

performed, weakness and strength of the appraise, transfer to another post, promotion and other personal traits.

With the objectives of the research in mind, it was found that employees' satisfaction towards their performance appraisal system was never accessed and most of the employees were dissatisfied with their appraisal system which showed impacting their job performance, commitment to the organization and their willingness to stay working for Agar via their answers provided and interviews conducted. Agar's performance appraisal formats were explicitly used for salary increment, promotion, transfer to another post, bonus and demotion or termination.

The majority of the respondents do not get feedback to their performance appraisal report. In fact, feedback of PA is only provided for the operations department. This is not a healthy PAS as employees will not know how they are performing on the job. After the appraiser has completed the appraisal, it should be communicated to the employees so that employees realize their potentials and work on their area of improvement.

Although almost all of the respondents suggest that evaluation should be conducted twice a year, it was done annually.

Agar's Performance appraisal system does not follow the stages of performance appraisal. It solely focuses on the measurement of performance and comparison of performance (i.e. stage 3&4).

4.3 Recommendations

In views of the findings and the problems mentioned above, coupled with the review of related literature the following recommendations are suggested:

- The first step the company has to do is to establish a written policy regarding the responsibilities of appraisal, frequency of appraisal, in general, guidelines used in performance appraisal process and system.
- The objective of appraisal should be made clear to all employees before appraisal takes place and employees should accept and agree with it.
- The criteria of appraisal should be developed from the job analysis. The more the criteria of evaluation are related to the job analysis, the evaluation will be for the better, and also, the performance appraisal criteria should be specific to reduce subjective judgment that comes from generalization.
- Feedback should be given to all employees on time. After all the main objective of evaluation is improving employees performance, and employees could not perform better without feedback being given to them on time.
- Agar should follow stages of performance appraisal practice giving emphasis to other stages in addition to stage 3 and 4 for better standard and outcome of PA. Clearly designed, well communicated PA, providing feedback and corrective action on the basis of the PA evaluation.
- The aim of PA in Agar should broaden to work on employee development rather than for mere usage for managerial decision purpose of promotion and salary increment. It should

be a means for improving employees work performance, a means to address training and development issues and a means to keep the employees motivated in the work environment.

- Rather than using only graphical scale as a method of PA, it would be better to make it BARS combining it with critical incident analysis and employee behavior assessment. This not only makes the PAS modern but also reduces subjectivity. Yet, it is wise to keep in mind that there is no one best way of performing PA.
- In general the overall view of management should advocate the accuracy of measurement and take corrective action in case of unfair ratings. In this context, the management's effort to improve the appraisal system should take into account the three important things gained from employee satisfaction on the appraisal process and reliability of the performance measurement. This in turn, enables Agar microfinance to attach high value to the fact that the system is enhancing the employees' performance and the advancement of the organization's objectives and goal.

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